

Idaho Legislative Audits
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Idaho Department of Water Resources

Management Report on Internal Control

Issued: October 18, 2005
Fiscal Year: 2002, 2003, and 2004



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

DEPARTMENT OF WATER RESOURCES

PURPOSE AND SCOPE. In planning and making our audit of the statewide basic financial statements, we performed certain audit procedures to evaluate the effectiveness of the Department of Water Resources' internal control design and operation. Consequently, the limited scope of our procedures does not allow us to give an opinion on the Department's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed.

Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. This evaluation, together with other evaluations and various audit procedures applied at other agencies, allows us to express an opinion on the statewide basic financial statements prepared by the State Controller's Office.

CONCLUSION. The finding and recommendation noted as a result of applying the audit procedures referred to above, if addressed, would improve and strengthen the Department's internal control structure and operating efficiency. This matter is discussed in the findings and recommendations section of this report.

FINDINGS AND RECOMMENDATIONS. We have summarized the finding and recommendation below. The recommendation is made to assist management in fulfilling its responsibility to establish and maintain adequate internal controls.

FINDING #1. Controls over the Department's energy loan program are not adequate. The Department provides financial assistance by making low-interest loans to individuals and organizations for programs and projects that result in the conservation of energy or the utilization of renewable resources. The following describes some control weaknesses with the loan program, some of which may be attributable to the lack of management reports.

1. One employee is responsible for approving loan disbursements, establishing accounts receivable, making adjustments to receivable balances, receiving payments, posting payments, and completing reconciliations. This increases the possibility of loss or misappropriation.
2. Loan-receivable balances from the Department's loan accounting system did not agree with balances recorded in State's accounting system during the audit period, even though the Department made adjustments totaling \$86,000. Some of these adjustments were not properly made, and the Department does not have documentation to support other adjustments.
3. The Department has an unexplained receivable balance of \$2,196 in one of its energy loan funds that has not changed in the past three years.
4. Local banks state that they review the credit worthiness of energy loan applicants in accordance with guidelines provided by the Department. However, the Department has not provided any credit guidelines to the banks.

We recommend that the Department review its loan program and consider the need for reports that will help it manage the program. **We also recommend** that the Department improve internal controls and accounting procedures by:

1. Reviewing the accounting duties and separating them accordingly to improve controls.
2. Keeping detail documentation to support adjustment transactions and ensuring they are properly recorded.
3. Researching receivable balances and taking the necessary action to ensure they are properly resolved.
4. Providing credit guidelines for the bank to follow when approving energy loans, or change the wording on the loan application.

PRIOR FINDINGS AND RECOMMENDATIONS. There was one finding and recommendation from the prior report. The status of this finding is discussed below.

PRIOR FINDING #1. Notes-receivable balances did not agree with recorded balances in the State's accounting system. The Department provides financial assistance by issuing low-interest loans to individuals and organizations for programs and projects that result in the conservation of energy and for the enhancement of irrigation systems. The recorded loan amounts differed by \$62,700 in one fund and \$71,400 in another fund.

We recommended that the Department reconcile the notes-receivable balances to the State accounting system and make the necessary adjustments to bring them into balance. This finding is closed and the issue is repeated in the current audit report as a finding and recommendation. **Status: CLOSED.**

AGENCY RESPONSE. The Department has reviewed the report and is in general agreement with its contents.

FINANCIAL SUMMARY. Although an opinion is not given on the financial data presented in this report, one is given on all State funds in the statewide *Comprehensive Annual Financial Report* that includes the financial data presented here. The Department is funded from a General Fund appropriation, federal grants, indirect cost recoveries, licenses and fees, revolving loan fund receipts, and, in fiscal years 2003 and 2004, an appropriation from the Water Pollution Control Fund. A summary of the Department's financial activity for fiscal years 2002, 2003, and 2004 is provided below.

DEPARTMENT OF WATER RESOURCES – FINANCIAL SUMMARY

		Fiscal Year 2002			
Fund	Fund Name	Beginning Cash Appropriation Balance	Plus Receipts and Transfers-In	Less Disbursements and Transfers-Out	Ending Cash Appropriation Balance
0001	General Fund	\$11,841,999	\$8,076	\$11,128,526	\$721,549
0125	Indirect Cost Recovery	239,852	\$463,706	\$557,081	146,477
229-01	State Regulatory Electrical	0	\$1,195	\$0	1,195
0229-21	Water Administration	586,712	739,170	675,629	650,253
0229-22	Water Rights Enforcement	6,100	10,375	0	16,475
0232	Subgrant Disaster Emergency	0	3,344	3,344	0
0337	Water Claims Adjudication	801,538	63,666	429,295	435,909
0348	Federal Grants	455,293	1,900,839	2,012,877	343,255
0349	Miscellaneous Revenue	354,134	967,161	993,469	327,826
0490-01	Development Loans - Revolving	1,779,398	1,693,179	1,994,706	1,477,871
0490-02	Development Loans -Water Management	459,666	(116,446)	97,190	246,030
0494-02	Petroleum Price Violation - Amoco/Betridge	51,457	2,399	6,408	47,448
0494-03	Petroleum Price Violation - Exxon	3,350,057	947,232	589,111	3,708,178
0494-05	Petroleum Price Violation - Stripper	1,969,050	699,263	538,958	2,129,355
0630	Custodial Funds	17,363	344,988	344,623	17,728
	TOTALS	\$21,912,619	\$7,728,147	\$19,371,217	\$10,269,549

		Fiscal Year 2003			
Fund	Fund Name	Beginning Cash Appropriation Balance	Plus Receipts and Transfers-In	Less Disbursements and Transfers	Ending Cash Appropriation Balance
0001	General Fund	\$10,038,947	\$631	\$9,652,940	\$386,638
0125	Indirect Cost Recovery	146,477	479,537	600,996	25,018
0200	Water Pollution Control	0	892,900	757,523	135,377
0229-01	State Regulatory Electrical	1,195	(1,195)	0	0
0229-21	Water Administration	650,253	794,966	756,095	689,124
0229-22	Water Rights Enforcement	16,475	16,750	8,776	24,449
0337	Water Claims Adjudication	435,909	56,071	252,549	239,431
0348	Federal Grants	343,255	2,469,257	2,223,528	588,984
0349	Miscellaneous Revenue	327,826	1,046,566	875,081	499,311
0490-01	Development Loans - Revolving	1,477,871	1,896,497	998,097	2,376,271
0490-02	Development Loans -Water Management	246,030	(27,792)	127,031	91,207
0494-02	Petroleum Price Violation - Amoco/Betridge	47,448	1,904	3,460	45,892
0494-03	Petroleum Price Violation - Exxon	3,708,178	881,204	223,433	4,365,949
0494-05	Petroleum Price Violation - Stripper	2,129,355	546,037	699,139	1,976,253
0630	Custodial Funds	17,728	1,920,317	1,903,024	35,021
	TOTALS	\$19,586,947	\$10,973,650	\$19,081,672	\$11,478,925

Fund	Fund Name	Fiscal Year 2004			
		Beginning Cash Appropriation Balance	Plus Receipts and Transfers-In	Less Disbursements and Transfers	Ending Cash Appropriation Balance
0001	General Fund	\$9,763,384	\$4,577	\$9,717,858	\$50,103
0125	Indirect Cost Recovery	25,018	585,142	495,336	114,824
0200	Water Pollution Control	135,377	797,400	758,723	174,054
0229-21	Water Administration	689,124	826,532	708,667	806,989
0229-22	Water Rights Enforcement	24,449	9,450	0	33,899
0337	Water Claims Adjudication	239,431	672,303	414,153	497,581
0348	Federal Grants	588,984	3,946,638	4,214,969	320,653
0349	Miscellaneous Revenue	499,311	1,105,453	884,518	720,246
0490-01	Development Loans - Revolving	2,376,271	1,842,241	1,728,923	2,489,589
0490-02	Development Loans -Water Management	91,207	539,351	532,586	97,972
0494-02	Petroleum Price Violation - Amoco/Betridge	45,892	933	0	46,825
0494-03	Petroleum Price Violation - Exxon	4,365,949	462,031	214,143	4,613,837
0494-05	Petroleum Price Violation - Stripper	1,976,253	403,536	549,423	1,830,366
0630	Custodial Funds	35,021	111,671	118,339	28,353
	TOTALS	\$20,855,671	\$11,307,258	\$20,337,638	\$11,825,291

NOTE: Ending cash appropriation balance for the General Fund includes year-end encumbrances for each fiscal year audited. The amounts of the encumbrances are: FY 02, \$330,447; FY 03, \$81,777; and FY 04, \$49,170.

LOANS. The Department issues loans for various water development projects, and for energy conservation and assistance. Loans are funded from the Water Development Fund and the Petroleum Price Violation Fund. The loan activity for fiscal years 2002, 2003, and 2004 was as follows:

	Development Fund	Petroleum Price Violation Fund
<u>Fiscal Year 2002</u>		
Loans Outstanding - July 1, 2001	\$3,798,995	\$3,074,986
Loan Funds Issued	1,508,434	507,360
Loan Funds Repaid	(456,701)	(1,265,013)
Adjustments	(40,270)	(159,699)
Loans Outstanding - June 30, 2002	<u>\$4,810,458</u>	<u>\$2,157,634</u>
<u>Fiscal Year 2003</u>		
Loans Outstanding - July 1, 2002	\$4,810,458	\$2,157,634
Loan Funds Issued	914,955	305,530
Loan Funds Repaid	(928,105)	(1,107,423)
Adjustments	(6,468)	24,276
Loans Outstanding - June 30, 2003	<u>\$4,790,840</u>	<u>\$1,380,017</u>
<u>Fiscal Year 2004</u>		
Loans Outstanding - July 1, 2003	\$4,790,840	\$1,380,017
Loan Funds Issued	1,493,153	208,367
Loan Funds Repaid	(935,266)	(680,297)
Adjustments	0	(23,194)
Loans Outstanding - June 30, 2004	<u>\$5,348,727</u>	<u>\$884,893</u>

OTHER ISSUES. In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Department of Water Resources and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the director, Karl Dreher, and his staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Supervisor, Legislative Audits

Thomas Haddock, CPA, CGFM, Managing Auditor

Report IC36004

<p>For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.</p>
